NEW APPLICATION

0000007553

RECEIVED

2003 OCT -9 P 4: 07

AZ CORP COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

OCT 09 2003

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER-Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY, INC., FOR AUTHORIZATION TO ASSUME NEW DEBT

DOCKET NO. T-02724A-03-0750

APPLICATION

(EXPEDITED ACTION REQUESTED)

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

I. INTRODUCTION

Pursuant to the provisions of A.R.S. §§ 40-285, 40-301 and 40-302, Table Top Telephone Company, Inc., ("TTTC" or the "Company") respectfully submits its application (the "Application") requesting an order from the Arizona Corporation Commission ("Commission") authorizing a new assumption of debt by TTTC in the amount of $11,235,000 from the U.S. Department of Agriculture, Rural Utilities Service ("RUS") and the amount of $6,540,450 from the Rural Telephone Bank ("RTB"), for a combined total of $17,775,450. The loan amounts are based on the total amount of funds appropriated for TTTC in the fiscal year 2003 cycle for RUS cost-of-money loans and RTB loans. Both loans will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance. The RUS cost-of-money loan interest rate will be fixed at the time of each advance. The interest rate on each RTB loan advance will be an interim rate. A permanent interest rate will be determined on each RTB loan advance at the end of the fiscal year in which the advance is made, based on RTB's cost-of-money rate for that fiscal year. An interest rate of 4.99 percent for the RUS cost-

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

of-money loan and 5.00 percent for the RTB loan was used for the feasibility study completed by the RUS. The maturity period for the loans is 17 years from the first advance of funds. TTTC further requests that the Commission authorize the pledge, mortgage, lien and/or encumbrance of TTTC's utility plant and assets as security for the loans, as may be required by RUS and RTB. TTTC further requests that the Commission authorize that the loan proceeds be used for the following purposes, and purposes incidental thereto, as more particularly described later in this Application: (1) to connect 2,122 new subscribers; (2) to construct a new central office building; (3) to install 77 new fiber-fed DLCs; (4) to install new microwave facilities; (5) to purchase Computer Aided Design (CAD) equipment; and (6) to construct new aerial and buried fiber optic facilities.

In addition to funds required for construction, the proposed loan amounts include $311,450 for investment in RTB Class B stock, which is a requirement of the RTB loan. The stock will be issued at the time of each respective RTB loan advance in an amount equal to 5 percent of each advance.

TTTC further requests that the Commission issue its finding that the loans are reasonably necessary and appropriate for the purposes stated in this Application, and that such purposes are not, wholly or in part, reasonably chargeable to TTTC's operative expenses or to income.

Finally, TTTC requests that the Commission expedite its review and approval of this Application, and that the Application be approved without hearing.

II. THE APPLICANT

Table Top Telephone Company, Inc., with headquarters in Ajo, Arizona, provides telecommunications services within the Aguila, Ajo, Bagdad, Inscription Canyon Ranch, Sanders and Seligman Exchanges in Arizona. There were 5,013 access lines in the exchanges as of August 31, 2003. The very rural service area encompasses approximately 2,976 square miles, with an average density of approximately 1.7 access lines per square mile.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

The Aguila exchange serves the town of Aguila and the surrounding rural areas including North Ranch, an RV resort. Aguila is located approximately 60 miles west of Phoenix, Arizona. Service is provided to 760 access lines in the Aguila exchange. The service area encompasses 609 square miles.

The Ajo exchange serves the towns of Ajo, Why and Lukeville, and the surrounding rural areas including Organ Pipe National Monument. It is located approximately 100 miles south of Phoenix, Arizona. Service is provided to 2,222 access lines in the Ajo exchange. The service area encompasses 480 square miles.

The Bagdad exchange serves the town of Bagdad and the surrounding rural areas. It is located approximately 60 miles west of Prescott, Arizona. Service is provided to 749 access lines in the Bagdad exchange. The service area encompasses 32 square miles

The Inscription Canyon Ranch exchange serves the Inscription Canyon Ranch and Talking Rock developments. It is located approximately 40 miles north of Prescott, Arizona. Service is provided to 53 access lines in the Inscription Canyon Ranch exchange. The service area encompasses 7 square miles.

The Sanders exchange serves the towns of Sanders, Navajo, Lupton and Houck, portions of the Navajo Nation and the surrounding rural areas. It is located approximately 140 miles east of Flagstaff, Arizona. Service is provided to 743 access lines in the Sanders exchange. The service area encompasses 846 square miles.

The Seligman exchange serves the town of Seligman and the surrounding rural areas. It is located approximately 75 miles west of Flagstaff, Arizona. Service is provided to 486 access lines in the Seligman exchange. The service area encompasses 1,002 square miles.

III. USE OF THE RUS LOAN PROCEEDS

TTTC serves all quadrants of Arizona except the southeast. It offers service from six non-contiguous exchanges in southwestern, central, northwestern and northeastern Arizona. Thus, it faces serious challenges in maintaining high quality telecommunications services in its rugged, low density areas. Despite hardships, a review of the Company's progress clearly demonstrates its successes, including service quality improvements and major reductions in trouble reports index.

TTTC proposes its initial RUS/RTB loans for the purpose of meeting telecommunications growth needs and improving its service in its diverse Arizona exchange areas.

TTTC has become a stable telecommunications service provider. Though relatively new, it has achieved much and grown remarkably in its eight-year existence. Organized to acquire several rural U S WEST exchanges, TTTC started from scratch under adverse conditions without a reputation or established credit rating. At the time the Company acquired the exchanges from U S WEST, they had an excessively high trouble report index, 38%. Many potential customers had nearly given up trying to secure telephone service due to long delays and the poor service quality. These obstacles had to be hurdled quickly. TTTC's early growth was spurred by the pent up demand for service. Within eighteen months from the time the Company commenced operations, the trouble index was lowered to an acceptable level of less than 2%. However, portions of the old U S WEST plant which have not been replaced by the Company remain an ongoing service challenge.

TTTC's backbone network consists of older microwave facilities. Such usually reliable technology now faces serious limitations. Major network changes and improvements will be required. Over the last decade, the industry has been revolutionized from technological, financial and regulatory standpoints. Today, the industry is driven by bandwidth demands, which are not limited to existing customers. No longer can cable fill or holding time factors alone be used to gauge demand and plant usage since current customers demand dedicated, twenty-four-hour usage of Internet traffic. Experts predict the patterns may shift so that data usage of the public switched network swells to over 80%. Voice may well become the less significant piece in the

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

network design. Accordingly, careful consideration must be given to bandwidth projections in long range planning. TTTC requires extensive backbone network capacity to meet its customer service goals.

In order to keep up with customer demands, TTTC must employ top-quality state-of-the-art telecommunications technology and services. Otherwise, competition can erode the customer base and revenue streams. Construction projects are designed with these parameters in mind.

New central office switching equipment will be placed at Inscription Canyon Ranch to ensure adequate services to the young but growing customer base. Over the past year, three or more central office providers have been contacted as the Company seeks input to the development of a new CO platform. An open network architecture approach is preferred, utilizing the GR 303 standards. The new soft switch option is a distinct possibility. At least two vendors have offered detailed project parameters and budgetary pricing. Interoperability, next generation service delivery, back office transparency and compact design are some of the highly desired features being sought.

The system network will continue GR 303 capability everywhere. This will facilitate service to DLC sites, as required. All but two of the existing sites will be replaced. Fifty-six new sites will be added, including 43 in the Sanders exchange.

Each major outside plant construction project is designed to deploy fiber optic cables in the network for maximum bandwidth capacity. TTTC intends to continue its carrier service area design concept so as to locate electronics within a designated distance of each new customer. Fiber optic cable projects are planned for backbone network capacity, growth and expansion for remote sites. Major copper distribution is planned for the Inscription Canyon Ranch subdivision, the Navajo Nation New Lands subdivisions in the Sanders exchange, and at other locations where needed to serve new customers. With adequate OSP cable sizing, it is expected new facilities will position TTTC well for the future.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

The loan proceeds will be used for a variety of projects to be constructed for the benefit of TTTC's various exchange areas over the next five years. A general breakdown of the various construction categories is set forth in the following Table 1:

TABLE 1 – USE OF RUS LOAN PROCEEDS (BY GENERAL CATEGORY)

PROJECT	**ESTIMATED COST**
New Central Office Equipment	$664,000.00
New Fiber Terminal Equipment, Digital Loop Carrier and DSLAM Equipment	$3,746,000.00
New Microwave Radio Facilities	$200,000.00
New Outside Plant Facilities	$10,714,000.00
New Emergency Generator Equipment	$407,000.00
New Central Office Building	$205,000.00
Site Preparation	$105,000.00
Removals	$23,000.00
New Support Assets	$80,000.00
Engineering	$1,320,000.00
RTB Class B Stock	$311,450.00
TOTAL	**$17,775,450.00**

TTTC will use the loan proceeds in its Arizona exchanges as detailed in the following Table 2:

. . . .

. . . .

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

TABLE 2 – USE OF RUS LOAN PROCEEDS (BY EXCHANGE AREA)						
EXCHANGE	CENTRAL OFFICE EQUIP.	ELECTRONIC EQUIPMENT	OUTSIDE PLANT	LAND AND BUILDINGS	MISC. (SUPPORT ASSETS & GENERATORS)	EXCHANGE TOTAL
Aguila	$15,000	$402,000	$900,000	$0	$0	$1,317,000
Ajo	$15,000	$720,000	$2,229,000	$0	$80,000	$3,044,000
Bagdad	$8,000	$70,000	$2,744,000	$0	$0	$2,822,000
Inscription Canyon Ranch	$485,000	$415,000	$664,000	$310,000	$0	$1,874,000
Sanders	$131,000	$1,980,000	$2,437,000	$0	$407,000	$4,955,000
Seligman	$10,000	$382,000	$1,740,000	$0	$0	$2,132,000
SUBTOTAL	**$664,000**	**$3,969,000**	**$10,714,000**	**$310,000**	**$487,000**	**$16,144,000**
ADDITIONAL SYSTEM-WIDE REQUIREMENTS[1]						**$1,631,450**
GRAND TOTAL						**$17,775,450**

IV. STATUS OF OUTSTANDING LOANS

TTTC has not previously obtained loans from either RUS or the RTB. TTTC does have existing loans from Rural Finance Telephone Cooperative (RTFC) in the original amount of $16,584,733, with an outstanding balance of $9,096,064, at interest rates of 6.45% on loans of $9,061,064 and 4.90% on loans of $35,000.

V. TERMS OF THE RUS LOAN

Preliminary studies by RUS show that TTTC qualifies for concurrent loans of

[1] The amount of $1,631,450 for "Additional System-Wide Requirements" consists of $1,320,000 for engineering costs and $311,450 for purchase of RTB Class B stock.

Snell & Wilmer L.L.P. LAW OFFICES One Arizona Center, 400 E. Van Buren Phoenix, Arizona 85004-2202 (602) 382-6000

$11,235,000 from RUS and $6,540,450 from the RTB. Both loans will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance. The RUS loan interest rate will be fixed at the time of each advance. The interest rate on each RTB loan advance will be an interim rate. A permanent interest rate will be determined on each RTB loan advance at the end of the fiscal year in which the advance is made based on RTB's cost-of-money rate for that fiscal year. The maturity period for the loans is 17 years.

VI. TTTC'S FINANCIAL STRENGTH

TTTC has the financial wherewithal to undertake the obligations associated with the proposed RUS and RTB loans as evidenced by the Company's draft auditor's report and financial statements for the years ended June 30, 2002, and 2003, copies of which are attached hereto as Attachment "A" and incorporated herein by this reference. TTTC will file final copies of the audited financial statements once they are completed by the Company's auditors in the next few weeks. The additional debt will enhance TTTC's ability to provide high-quality telecommunications services within its service areas, and the Company can safely repay the additional debt without over-extending itself financially. Thus, the additional debt will not endanger TTTC's ability to continue to provide telephone service at just and reasonable rates.

VII. TTTC'S CURRENT CASH POSITION

TTTC has current cash on hand of approximately $1,900,000. This amount represents approximately 4.0 months' operating expenses. TTTC cannot complete the necessary plant construction and upgrades without accessing the RUS/RTB loan proceeds.

VIII. PUBLICATION OF NOTICE

TTTC will publish such notice of this Application as the Commission may require pursuant to A.R.S. § 40-302(A).

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

IX. NOTICE TO TTTC

TTTC's principal place of business is 600 North Second Avenue, Ajo, Arizona. All communications and correspondence regarding this Application, as well as communications and pleadings with respect hereto filed by other parties, should be served on the following:

William J. Hayes, General Manager
TABLE TOP TELEPHONE COMPANY, INC.
600 North Second Avenue
Ajo, AZ 85321
Phone: (520) 387-5600
Fax: (520) 387-5602
E-mail: jhayes@tabletoptelephone.com

Jeffrey W. Crockett, Esq.
SNELL & WILMER L.L.P.
One Arizona Center
Phoenix, Arizona 85004-2202
Direct Line: (602) 382-6234
Fax: (602) 382-6070
E-mail: jcrockett@swlaw.com

X. CONCLUSION

WHEREFORE, Table Top Telephone Company, Inc., respectfully requests that the Commission issue its order in accordance with A.R.S. §§ 40-285, 40-301 and 40-302 as follows:

A. Authorizing TTTC to borrow up to $17,775,450 from RUS and RTB upon terms and conditions to be set by RUS and RTB and agreeable to TTTC. Both loans will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance. The RUS loan interest rate will be fixed at the time of each advance. The interest rate on each RTB loan advance will be an interim rate. A permanent interest rate will be determined on each RTB loan advance at the end of the fiscal year in which the advance is made based on RTB's cost-of-money rate for that fiscal year. The maturity period for the loans is 17 years;

B. Authorizing TTTC to use the loan proceeds for the purposes described in this Application;

C. Authorizing the pledge, mortgage, lien and/or encumbrance of TTTC's utility plant and assets as security for the loans, as may be required by RUS and RTB; and

D. Finding that the loans are reasonably necessary and appropriate for the purposes stated in this Application, and that such purposes are not wholly, or in part, reasonably chargeable to TTTC's operative expenses or to income.

TTTC further requests that the Commission expedite its review and approval of this Application, and that the loans be approved without a hearing.

RESPECTFULLY SUBMITTED this 9th day of October, 2003.

SNELL & WILMER

By [signature]
Jeffrey W. Crockett
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for Table Top Telephone Company, Inc.

ORIGINAL AND THIRTEEN (13) copies filed this 9th day of October, 2003, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPIES MAILED this 9th day of October, 2003, to:

Ernest Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Lyn A. Farmer, Chief Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1700 West Washington Street
Phoenix, Arizona 85007

Christopher C. Kempley, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1700 West Washington Street
Phoenix, Arizona 85007

Richard Boyles
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

John Thornton
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Conna Ball

Crockej\PHX\1417092.2

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

ATTACHMENT A

DRAFT

TABLE TOP TELEPHONE COMPANY, INC.

AJO, ARIZONA

INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

JUNE 30, 2003 and 2002

DRAFT

CONTENTS

INDEPENDENT AUDITOR'S REPORT

DRAFT

To the Board of Directors
Table Top Telephone Company, Inc.

We have audited the accompanying balance sheets of Table Top Telephone Company, Inc. as of June 30, 2003 and 2002, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Table Top Telephone Company, Inc. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stockton, California
September 11, 2003

DRAFT

BALANCE SHEETS

TABLE TOP TELEPHONE COMPANY, INC.
BALANCE SHEETS

DRAFT

ASSETS

	JUNE 30, 2003	JUNE 30, 2002
CURRENT ASSETS		
Cash	$ 1,885,926	$ 1,175,935
Telecommunications accounts receivable	271,018	269,000
Other accounts receivable	626,414	444,494
Materials and supplies	42,696	136,073
Prepaid income taxes	163,013	41,650
Other prepayments	63,337	50,413
Total current assets	3,052,404	2,117,565
NONCURRENT ASSETS		
Investments	757,124	811,691
Total noncurrent assets	757,124	811,691
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	25,417,209	24,122,561
Plant under construction	235,248	851,751
Goodwill	3,190,756	3,190,756
	28,843,213	28,165,068
Less accumulated depreciation and amortization	13,372,818	11,410,384
Net property, plant, and equipment	15,470,395	16,754,684
	$ 19,279,923	$ 19,683,940

TABLE TOP TELEPHONE COMPANY, INC.
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

DRAFT

	JUNE 30, 2003	JUNE 30, 2002
CURRENT LIABILITIES		
Accounts payable	$ 742,448	$ 418,727
Current maturities of mortgage notes	1,332,929	1,146,000
Current maturities of capital lease obligation	72,089	66,307
Advance billings and customer deposits	367,027	315,187
Property taxes payable	147,578	160,008
Accrued vacations payable	43,602	26,506
Profit sharing plan payable	36,410	33,655
Other accrued liabilities	64,519	51,984
Total current liabilities	2,806,602	2,218,374
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	1,350,362	914,157
LONG-TERM DEBT		
Mortgage notes	8,136,506	9,679,906
Capital lease obligation	44,921	117,011
Total long-term debt	8,181,427	9,796,917
STOCKHOLDER'S EQUITY		
Common stock, authorized 10,000,000 shares $1 par value: Issued and outstanding 5,500,000 shares	5,500,000	5,500,000
Retained earnings	1,441,532	1,254,492
Total stockholders' equity	6,941,532	6,754,492
	$ 19,279,923	$ 19,683,940

See accompanying notes

TABLE TOP TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

DRAFT

	YEARS ENDED JUNE 30, 2003	2002
OPERATING REVENUES		
Local network services	$ 1,580,595	$ 1,527,645
Network access services	5,980,741	5,736,866
Miscellaneous	67,822	(29,533)
Total operating revenues	7,629,158	7,234,978
OPERATING EXPENSES		
Plant specific operations	1,066,223	835,426
Plant nonspecific operations	460,375	394,660
Customer operations	523,516	485,701
Corporate operations	905,159	788,401
Depreciation and amortization	2,564,392	2,801,987
Property and other taxes	288,829	274,958
Total operating expenses	5,808,494	5,581,133
OPERATING INCOME	1,820,664	1,653,845
OTHER INCOME AND (EXPENSES)		
Allowance for funds used during construction	11,066	1,528
Interest and dividend income	24,526	7,555
Interest expense	(645,738)	(655,527)
Amortization – goodwill	-	(409,509)
Nonoperating expense, net	(9,758)	(2,211)
Nonregulated income, net	178,522	135,730
Total other income and (expenses)	(441,382)	(922,434)
NET INCOME BEFORE INCOME TAXES	1,379,282	731,411
Provision for income taxes	532,242	312,535
NET INCOME	847,040	418,876
RETAINED EARNINGS, beginning of year	1,254,492	835,616
Dividends on common stock	(660,000)	-
RETAINED EARNINGS, end of year	$ 1,441,532	$ 1,254,492

See accompanying notes

TABLE TOP TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS

DRAFT

	YEARS ENDED JUNE 30, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and settlements	$ 8,068,160	$ 7,978,693
Cash paid to vendors, suppliers, and employees	(3,207,717)	(3,199,667)
Interest and dividends received	24,526	7,555
Interest paid	(661,265)	(690,121)
Income taxes paid	(217,400)	(43,655)
Net cash from operating activities	4,006,304	4,052,805
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of plant	(1,254,036)	(1,868,822)
Salvage, net of cost of removal	(15,001)	(10,544)
Purchase of investments	-	(19,500)
Sale of investments	55,503	52,033
Net cash from investing activities	(1,213,534)	(1,846,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for loan fees	-	2,316
Principal payments on short-term debt	-	(231,383)
Principal payments on mortgage notes and capital lease obligation	(1,422,779)	(1,262,829)
Dividends paid	(660,000)	-
Net cash from financing activities	(2,082,779)	(1,491,896)
NET CHANGE IN CASH	709,991	714,076
CASH, beginning of year	1,175,935	461,859
CASH, end of year	$ 1,885,926	$ 1,175,935

TABLE TOP TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS

DRAFT

	YEARS ENDED JUNE 30, 2003	2002
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
NET INCOME	$ 847,040	$ 418,876
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,578,983	3,225,520
Deferred income taxes	436,205	310,480
Allowance for funds used during construction	(11,066)	(1,528)
Patronage credits	(15,527)	(33,840)
Increase (decrease) in cash due to changes in assets and liabilities:		
Telecommunications accounts receivable	(2,018)	59,001
Other accounts receivable	(181,920)	166,318
Materials and supplies	93,377	7,734
Prepaid income taxes	(121,363)	(41,600)
Other prepayments	(12,924)	(7,154)
Accounts payable – trade	323,721	(54,650)
Advance billings and customer deposits	51,840	42,877
Property taxes payable	(12,430)	(50,328)
Accrued vacations payable	17,096	3,032
Profit sharing plan payable	2,755	6,851
Other accrued liabilities	12,535	1,216
Total adjustments	3,159,264	3,633,929
NET CASH FROM OPERATING ACTIVITIES	$ 4,006,304	$ 4,052,805

See accompanying notes

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations – Table Top Telephone Company, Inc. (the Company) is a wholly owned subsidiary of Stageline Communications, Inc. Prior to October 2002, it was owned by Stageline Communications, Inc. (67.34%) and Wagner Telecommunications, Inc. (32.66%). The Company provides telephone service in its franchised territory of Pima, Maricopa, Coconino, Yavapia, and Apache Counties, and is subject to the Rules and Regulations of the Arizona Corporation Commission (the Commission) and the Federal Communications Commission (FCC). Pending and future regulatory actions may have a significant impact on the Company's operations and financial condition.

Basis of presentation – The accounting policies of the Company conform to generally accepted accounting principles and reflect practices appropriate to the telecommuncations industry. The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Commission.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory accounting – The Company follows accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," since the Company is subject to regulation by the Commission and other federal agencies, and meets the criteria set forth in SFAS No. 71.

Revenue recognition – Regulated and nonregulated operating revenues are recognized when earned regardless of the period in which they are billed. Nonregulated revenues consist of sales of telecommunications equipment and certain nonregulated maintenance and communications services.

Compensation for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the FCC on behalf of the member companies. These access charges are billed by the Company to the interstate interexchange carriers, and pooled with like revenues from all NECA member companies. The portion of the pooled access charge revenue received by the Company is based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service.

Intrastate network access revenues are based on tariffed rates and billed to the long distance carriers and end users, respectively.

DRAFT

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable – The Company generally does not require collateral or other security to support accounts receivable. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established. No allowance for doubtful accounts was considered necessary at June 30, 2003 and 2002.

Materials and supplies – Materials and supplies are valued at average cost.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Generally accepted accounting principles require a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized.

NOTE 2 – CASH

Cash consists of the following:

	2003	2002
Cash in checking	$ 1,827,951	$ 401,552
Cash in savings	52,745	769,753
Other	5,230	4,630
	$ 1,885,926	$ 1,175,935

Of the Company's cash, $1,685,926 and $1,075,935 at June 30, 2003 and 2002, respectively, is in excess of the FDIC insurance limit.

DRAFT

NOTE 3 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable consists of the following:

	2003	2002
AT&T Communications	$ 121,558	$ 137,044
NECA	297,851	227,195
U S WEST Communications	11,522	3,134
Other interexchange carriers	181,767	54,613
Other	13,716	22,508
	$ 626,414	$ 444,494

NOTE 4 – INVESTMENTS

Investments, recorded at cost, consists of the following:

	2003	2002
RTFC 5% subordinated capital certificates and patronage dividends	$ 715,738	$ 755,714
NCDC patronage credits	15,171	15,171
Nonregulated equipment, net of accumulated depreciation of $71,776 and $227,636	2,835	17,426
Other	23,380	23,380
	$ 757,124	$ 811,691

Shares of Rural Telephone Finance Cooperative (RTFC) subordinated certificates are purchased as a condition for obtaining long-term financing from RTFC. Holders of subordinated certificates are entitled to patronage dividends. Investments in RTFC subordinated certificates do not have readily determinable fair values.

DRAFT

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Telecommunications plant in service and under construction at June 30, 2003 and 2002, are stated at original cost of construction including capitalized costs, such as general taxes, pensions, and other fringe benefits, and an allowance for funds used during construction (AFUDC). Depreciation is provided for on the straight-line remaining life basis, which uses a specific depreciation rate for each of a number of categories of physical plant. The rate is applied monthly to the average original book cost of plant still in use. This method attempts to recover the undepreciated portion of the original cost over the estimated remaining life. When depreciable telecommunications plant is retired, the original cost is charged to accumulated depreciation.

Telecommunications plant in service asset lives range from 5 to 50 years. The composite depreciation rate for depreciable telecommunications plant was 9.6% in 2003 and 10.7% in 2002.

Major classes of telecommunications plant in service are:

	2003	2002
Land	$ 81,067	$ 81,067
General support	2,516,415	2,374,877
Central office	11,863,106	11,420,814
Cable and wire facilities	10,631,941	9,921,123
Capital leases – central office	324,680	324,680
	$ 25,417,209	$ 24,122,561

NOTE 6 – GOODWILL

The Company adopted FASB Statement No. 142, *Goodwill and Other Intangible Assets,* on July 1, 2002. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized, but are subject to annual impairment tests in accordance with the Statement.

In 1995, the Company acquired the assets of several Qwest (formerly U.S. West) exchanges. The excess of the purchase price over the assets acquired has been recorded as goodwill. Prior to adopting SFAS No. 142, the goodwill was amortized to nonoperating expense on a straight-line basis over 15 years. In accordance with SFAS No. 142, goodwill was tested for impairment by comparing the fair value of the reporting unit to the carrying value. The fair value of the Company's goodwill exceeded its carrying value and no impairment loss was recorded.

DRAFT

NOTE 6 – GOODWILL (CONTINUED)

The following table represents the impact of SFAS No. 142 on net income had the standard been in effect in July 1, 2001.

	2003	2002
Reported net income	$ 847,040	$ 418,876
Add back goodwill amortization	-	409,509
	$ 847,040	$ 828,385

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable consists of the following:

	2003	2002
AT&T Communications	$ -	$ (3,265)
NECA	321,684	165,746
U S WEST Communications	176	(305)
Construction payables	145,942	70,683
Trade payables	274,646	185,868
	$ 742,448	$ 418,727

NOTE 8 – PROFIT SHARING PLAN PAYABLE

The Company maintains a 401(k) profit sharing plan for all full-time employees who have completed 1,000 hours of service each year.

Under the plan, employees may elect to defer part of their salary, subject to the Internal Revenue Service limits. The Company will match employee contributions up to 4% of their gross wages and may make additional discretionary contributions to the plan. Total Company contributions to the plan were $97,455 and $87,114 for the years ended June 30, 2003 and 2002, respectively.

DRAFT

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of mortgage notes payable to RTFC. Principal and interest payments of approximately $485,000 are due quarterly. Interest rates as of June 30, 2003 and 2002 were 5.15% and 6.25%, respectively, for the loan maturing in 2005. The notes are secured by all property of the borrower.

Interest Rate	Date of Maturity	Original Amount	2003	2002
6.45%	2010	$ 9,350,000	$ 5,342,121	$ 6,013,177
6.45%	2010	4,210,526	2,377,047	2,686,318
6.45%	2010	1,366,312	858,967	952,145
6.45%	2011	1,157,895	781,300	854,266
Variable	2005	500,000	110,000	320,000
			9,469,435	10,825,906
Less current maturities			1,332,929	1,146,000
			$ 8,136,506	$ 9,679,906

Current maturities of long-term debt for each of the five years following the balance sheet date are:

2004	$ 1,332,929
2005	1,304,000
2006	1,391,000
2007	1,484,000
2008	1,583,000

DRAFT

NOTE 10 – CAPITAL LEASE OBLIGATION

The Company leases microwave equipment that has been accounted for as a capital lease. The lease is payable in monthly installments of $6,598, due April 2005, and secured by the equipment. Future minimum lease payments under the capital lease at June 30, 2003, are as follows:

	2004	$ 79,177
	2005	46,186
Total minimum lease payments		125,363
Less amount representing interest		8,353
Present value of future minimum lease payments		117,010
Less current portion		72,089
Long-term capital lease obligation		$ 44,921

NOTE 11 – INCOME TAXES

Provision for income taxes consists of the following:

	2003	2002
Current:		
Federal	$ 26,334	$ 2,005
State	69,703	50
Deferred:		
Federal	383,106	236,060
State	53,099	74,420
	$ 532,242	$ 312,535

The Company's effective income tax rate varies from the current federal tax rate primarily because of state income tax, net of federal benefit, and book to tax adjustments.

DRAFT

NOTE 11 – INCOME TAXES (CONTINUED)

The net deferred tax liability at June 30, 2003 and 2002, consists of the following:

	2003	2002
Deferred tax liabilities:		
Property – accelerated depreciation	$ 1,350,362	$ 1,561,995
Deferred tax assets:		
Net operating losses	-	(647,838)
Net deferred tax liability	$ 1,350,362	$ 914,157